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295 North Maple Avenue
Basking Ridge, NJ 07920

December 1, 1993

William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W. - Room 222
Washington, D.C. 20554

RECEIVED
DEC - 1 1993
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: **Ex Parte Presentation**
CC Docket 92-135

Dear Mr. Caton:

On December 1, 1993, I met with Andy Mulitz of the Common Carrier Bureau. At this meeting, we discussed several issues related to the above referenced regulatory reform proceeding for non-price cap LECs. Materials presented in these discussions are attached to this submission.

Two copies of this Notice were submitted to the Secretary of the FCC in accordance with Section 1.1206(a)(1) of the Commission's rules.

Sincerely yours,

Richard N. Clarke
Regulatory Policy Analysis
Government Affairs

Attachments

cc: A. Mulitz

SUGGESTED REVISIONS TO SECTION 61.50 OF THE COMMISSION'S RULES

Standard 24-month initial filings

Section 61.50 (k) (1):

For the first period the Carrier Common Line revenue requirement shall be determined by a cost of service study for the most recent 12 month period. The Carrier Common Line revenue requirement shall be divided by a factor equal to: the demand during the most recent 12-month period, multiplied by $[(1+h/2) + (1+h/2)^2]/2$; where h is defined as the ratio of CCL MOU during the most recent 12-month period over CCL MOU during the 12-month period preceding the most recent 12-month period, minus 1.

That is,

$$\frac{\text{CCL Rev Req}}{\text{CCL MOU}_1 \times \left[\left(1+\frac{h}{2}\right)+\left(1+\frac{h}{2}\right)^2\right]/2},$$

where:

$$h = \frac{\text{CCL MOU}_1}{\text{CCL MOU}_0} - 1,$$

CCL MOU_1 = CCL MOU for most recent 12-month period,

CCL MOU_0 = CCL MOU for 12-month period preceding the most recent 12-month period.

Subsequent OIR filings

Section 61.50 (k) (2):

For subsequent filings, the Carrier Common Line revenue requirement shall be determined by a cost of service study for the most recent 24-month period. The Carrier Common Line revenue requirement determined in this manner shall be divided by a factor equal to: the demand during the most recent 24-month period, multiplied by $(1+h/2)$; where h is defined as the ratio of CCL MOU during the most recent 24-month period over the CCL MOU during the 24-month period preceding the most recent 24-month period, minus 1.

That is,

$$\frac{\text{CCL Rev Req}}{\text{CCL MOU}_1 \times \left(1+\frac{h}{2}\right)},$$

where:

$$h = \frac{\text{CCL MOU}_1}{\text{CCL MOU}_0} - 1,$$

CCL MOU_1 = CCL MOU for most recent 24-month period,

CCL MOU_0 = CCL MOU for 24-month period preceding the most recent 24-month period.

Initial 18-month OIR tariff period

Section 61.50 (l) (1):

Notwithstanding 61.50 (h)(2), the maximum allowable increase or decrease in a service category shall be limited to 7½% over any initial 18-month tariff period.

Section 61.50 (l) (2):

Notwithstanding 61.50 (k) (1), for the initial 18 month OIR tariff period, the Carrier Common Line revenue requirement shall be determined by a cost of service study for the most recent 12-month period. The Carrier Common Line revenue requirement shall be divided by a factor equal to: the demand during the most recent 12-month period, multiplied by $[(1+ h/2) + (1+ h/2)^{3/2}]/2$; where h is defined as the ratio of CCL MOU during the most recent 12-month period over CCL MOU during the 12-month period preceding the most recent 12-month period, minus 1.

That is,

$$\frac{\text{CCL Rev Req}}{\text{CCL MOU}_1 \times \left[\left(1+\frac{h}{2}\right)+\left(1+\frac{h}{2}\right)^{\frac{3}{2}}\right]/2},$$

where:

$$h = \frac{\text{CCL MOU}_1}{\text{CCL MOU}_0} - 1,$$

CCL MOU_1 = CCL MOU for most recent 12-month period (7/1/92 - 6/30/93),

CCL MOU_0 = CCL MOU for 12-month period preceding the most recent 12-month period (7/1/91 - 6/30/92).

EXOGENOUS TREATMENT OF TAX CHANGES UNDER OIR:
EXAMPLE OF FCC METHODOLOGY vs. CBT METHODOLOGY

As Required by the OIR Order:

Date Taxes Paid	Reflected in BP Financials	Reflected in Tariffs	Effect
Tax increase effective 1/93			
1/93 - 12/94	1/93 - 12/94	7/95 - 6/97	6 years of higher taxes paid 1/93 - 12/98
1/95 - 12/96	1/95 - 12/96	7/97 - 6/99	6 years of higher taxes reflected in BP financials: 1/93 - 12/98
1/97 -12/98	1/97 - 12/98	7/99 - 6/01	6 years of tariff revenue recovery: 7/95 - 6/01
Tax reduction effective 1/99			
1/99 - 12/00	1/99 - 12/00	7/01 - 6/03	

CBT Methodology:

Date Taxes Paid	Reflected in BP Financials	Reflected in Tariffs	Effect
Tax increase effective 1/93			
1/93 - 12/94	1/93 - 12/94	1/94 - 6/95 *and* 7/95 - 6/97	6 years of higher taxes paid 1/93 - 12/98 6 years of higher taxes reflected in BP financials: 1/93 - 12/98
1/95 - 12/96	1/95 - 12/96	7/97 - 6/99	7 1/2 years of tariff revenue recovery: 1/94 - 6/01
1/97 - 12/98	1/97 - 12/98	7/99 - 6/01	- unless CBT purges tax costs from its financials beginning in 7/97 - this would require burdensome historical record keeping to keep track of how many months of early recovery CBT enjoyed from 1/94 - 6/95.
Tax reduction effective 1/99			
1/99 - 12/00	1/99 - 12/00	7/01 - 6/03	